

MARY ANN SMITH
Deputy Commissioner
SEAN M. ROONEY
Assistant Chief Counsel
VANESSA T. LU (State Bar No. 295217)
Counsel
Department of Business Oversight
320 West 4th Street, Suite 750
Los Angeles, California 90013-2344
Telephone: (213) 576-7632
Facsimile: (213) 576-7181

Attorneys for Complainant

BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT
OF THE STATE OF CALIFORNIA

In the Matter of:)	CRD NO.: 170438
)	
THE COMMISSIONER OF BUSINESS)	ORDER REVOKING THE INVESTMENT
OVERSIGHT,)	ADVISER CERTIFICATE OF PARAGON
)	PORTFOLIO MANAGEMENT, LLC
Complainant,)	
)	
v.)	
)	
PARAGON PORTFOLIO MANAGEMENT,)	
LLC,)	
)	
)	
Respondent.)	
)	

TO: Paragon Portfolio Management, LLC
3017 Douglas Boulevard, Suite 250-B
Roseville, CA 95661

1. On July 30, 2018, the Commissioner of Business Oversight (Commissioner) brought an action to revoke the investment adviser certificate of Paragon Portfolio Management, LLC (Paragon) under Corporations Code section 25232, subdivisions (e) and (h).

2. The Commissioner issued an investment adviser certificate to Paragon on March 3, 2014, pursuant to Corporations Code section 25230. Paragon was a California limited liability

1 company and located at 3017 Douglas Boulevard, Suite 250-B, Roseville, California 95661, and was
2 an investment adviser, registered through the Central Registration Depository¹ (CRD) with the
3 assigned number 170438.

4 3. Altobell was an investment adviser representative, with the assigned CRD number
5 2576170, and was the managing member and 100-percent owner of Paragon. Altobell managed
6 Paragon client accounts on a discretionary basis – he had control over client funds and securities.

7 4. The Commissioner finds that on or around July 2016, and continuing through at least
8 May 2017, Paragon, by and through Altobell, accessed client accounts without prior authorization in
9 violation of Corporations Code sections 25235, 25238 and California Code of Regulations (CCR),
10 title 10, sections 260.237 and 260.238.

11 5. The Department of Business Oversight (Department) interviewed D.K., a former
12 Paragon client. D.K. told the Department that he never accessed nor executed trades in his online
13 account. The Department reviewed D.K.'s account statements for his account after Charles Schwab
14 & Company Inc. (Schwab) terminated Paragon's trading platform and after Schwab removed
15 Altobell as his authorized investment adviser on May 27, 2016. The July 2016 statement for D.K.'s
16 account showed Paragon and Altobell executed QSEP trades in D.K.'s account between July 24,
17 2016 and July 28, 2016 without D.K.'s prior authorization.

18 6. The Department interviewed W.M., a former client of Paragon. W.M. told the
19 Department he has never accessed his online account to make any trades and that all trading activity
20 was done by Altobell. The Commissioner reviewed the statements of W.M.'s account after Paragon
21 was terminated from Schwab's trading platform and after Altobell was removed as W.M.'s
22 authorized investment adviser on May 26, 2017. W.M.'s account statements showed that Altobell
23 used W.M.'s username and password to access W.M.'s online account without prior client
24 authorization. The account statements for July, August, September, and October 2016 showed
25 Paragon, by and through Altobell, executed unauthorized trades in QSEP.

26
27 ¹ Central Registration Depository (CRD) is a licensing and registration system for the U.S. securities industry and
28 regulators. CRD system contains the registration records, qualification, employment, and disclosure histories of active
registered individuals. CRD system facilitates the processing and payment of registration-related fees such as form
filings, fingerprint submissions, qualification exams, and continuing education sessions.

1 7. CCR, title 10, section 260.237, subdivision (a)(1) - (4), specifies additional conduct
2 by investment advisers that constitutes fraudulent, deceptive, and manipulative practices under
3 Corporations Code section 25235. Paragon and Altobell violated the aforementioned provision as
4 Paragon had custody and control of client funds and securities; Altobell was required to file a Form
5 ADV with the Commissioner; and Altobell was required to provide notices and account statements
6 to his clients. Paragon and Altobell did not file the Form ADV with the Commissioner and did not
7 provide account statements or notices to their clients.

8 8. CCR, title 10, section 260.237, subdivision (a)(6), states it is “deemed to be a
9 fraudulent, deceptive, or manipulative act, practice or course of business” for an investment adviser
10 to have custody of client funds or securities unless independent audited examinations are conducted
11 each calendar year. Paragon and Altobell violated CCR, title 10, section 260.237, subdivision (a)(6),
12 as independent audited examinations were never performed on their clients’ accounts.

13 9. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
14 section 25235, subdivisions (b) and (d); Corporations Code section 25238; CCR, title 10, section
15 260.237, subdivision (a); and CCR, title 10, section 260.238, subdivision (b), by placing an order to
16 purchase or sell a security for the account of a client without the authority to do so; failing to follow
17 safekeeping procedures while having custody of client funds or securities; and engaging in a practice
18 or course of business that is fraudulent, deceptive, and manipulative. The aforementioned conduct
19 constitutes a failure to promote “fair, equitable or ethical principles,” as required in Corporations
20 Code section 25238 and CCR, title 10, section 260.238, subdivision (b). Therefore, cause exists to
21 revoke Paragon’s investment adviser certificate under Corporations Code section 25232,
22 subdivisions (e) and (h).

23 10. The Commissioner further finds that Paragon, by and through Altobell, breached their
24 fiduciary duties recommending unsuitable investments and guaranteed a client a specific result in
25 violation of Corporations Code section 25238 and CCR, title 10, section 260.238. Paragon and
26 Altobell guaranteed W.M. that QSEP was a safe, low-risk investment, and that W.M. would not lose
27 his retirement. Altobell “talked up the stock,” stating that QSEP was a “safe bet” and would be
28 W.M.’s “big retirement out.” When W.M. noticed his portfolio decreased, he confronted Altobell.

1 Paragon and Altobell reassured W.M. that QSEP would “bounce back.”

2 11. Paragon and Altobell owed a fiduciary duty to its clients. Paragon and Altobell
3 breached their fiduciary duties by conducting authorized discretionary trading on other clients’
4 accounts in an unsuitable manner that was excessive in size and frequency in view of the financial
5 resources, investment objectives, and character of each client account. Paragon and Altobell failed to
6 manage risk by investing client funds in the penny stock QSEP – even though most of Paragon’s
7 clients are retired, unaccredited investors.

8 12. The Commissioner finds that Paragon, by and through the actions of Altobell,
9 willfully violated Corporations Code section 25238 and CCR, title 10, section 260.238, subdivisions
10 (a), (e), and (l), by breaching its fiduciary duty by conducting discretionary trading on clients’
11 accounts in an unsuitable manner; failing to manage investment risk regarding the use of penny
12 stocks; and guaranteeing a client a specific result. The aforementioned conduct constitutes a failure
13 to promote “fair, equitable or ethical principles.” Therefore, cause exists to revoke Paragon’s
14 investment adviser certificate under Corporations Code section 25232, subdivisions (e) and (h).

15 13. The Commissioner further finds that Paragon and Altobell engaged in multiple forms
16 of market manipulation to falsely inflate the price of QSEP and to create an artificial demand for the
17 penny stock in violation of Corporations Code sections 25235 and 25400. The Department reviewed
18 the QSEP trade blotter and it showed Paragon and Altobell engaged in unlawful market
19 manipulation.

20 14. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
21 section 25400, subdivision (a)(2), by entering an order or orders for the purchase of any security
22 with the knowledge that an order or orders of substantially the same size, at substantially the same
23 time and at substantially the same price, for the sale of such securities, has been or will be entered by
24 or for the same or different parties; and Corporations Code section 25235, subdivision (d), by
25 executing market-on-close orders – an act, practice or course of business which is fraudulent,
26 deceptive, and manipulative to increase the price of QSEP by placing buy orders near, or at the close
27 of trading. Therefore, cause exists to revoke Paragon’s investment adviser certificate under
28 Corporations Code section 25232, subdivisions (e) and (h).

1 15. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
2 section 25235, subdivision (b), and Corporations Code section 25400, subdivision (b), by
3 fraudulently cross-trading buy and sale orders for QSEP, without recording the trade on the
4 exchange, which prevented Paragon’s clients from receiving the best execution price. Therefore,
5 cause exists to revoke Paragon’s investment adviser certificate under Corporations Code section
6 25232, subdivisions (e) and (h).

7 16. Paragon, by and through the actions of Altobell, willfully violated Corporations Code
8 section 25235, subdivisions (b), (c), and (d), and Corporations Code section 25400, subdivision (a),
9 by unlawfully cross-trading and front-running the Altobell Family Trust Accounts – giving his
10 parents profitable QSEP execution prices over Paragon’s client accounts. Therefore, cause exists to
11 revoke Paragon’s investment adviser certificate under Corporations Code section 25232,
12 subdivisions (e) and (h).

13 17. Finally, the Commissioner finds that Altobell, by and through his actions as the sole
14 managing member and 100-percent owner of Paragon, willfully violated Corporations Code section
15 25404, subdivision (b), by knowingly making untrue statements to the Commissioner during the
16 course of licensing, investigation, or examination, with the intent to impede, obstruct, or influence
17 the administration or enforcement of any provision of this division. Therefore, cause exists to revoke
18 Paragon’s investment adviser certificate under Corporations Code section 25232, subdivisions (e)
19 and (h).

20 18. On August 1, 2018, the Department personally served Paragon the following: Notice
21 of Intention to Issue Order Revoking the Investment Adviser Certificate of Paragon Portfolio
22 Management, LLC Under Corporations Code Section 25232; Accusation; Statement to Respondents;
23 Government Code sections 11507.5, 11507.6, and 11507.7; and a blank form Notice of Defense.
24 Paragon has not requested a hearing and the time to request a hearing has now expired.

25 19. The above-described violations constitute grounds under Corporations Code section
26 25232, subdivisions (e) and (h), to revoke the investment adviser certificate of Paragon in California.
27 The Commissioner hereby finds that, by reason of the foregoing, it is in the public interest to revoke
28 the investment certificate of Paragon.

1 THEREFORE, GOOD CAUSE APPEARING, IT IS ORDERED that the investment adviser
2 certificate of Paragon Portfolio Management, LLC be revoked. This order is effective immediately.

3
4 Dated: September 14, 2018
5 Sacramento, California

JAN LYNN OWEN
Commissioner of Business Oversight

6
7 By _____
8 MARY ANN SMITH
9 Deputy Commissioner
10 Enforcement Division